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FRANCHISING: Innovative Newcomers

Bar Design 118

Take-Out

Restaurant Business

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Franchising: Innovative newcomers
The 20th Annual Franchising Issue compiled by the editors of *Restaurant Business* features some of the hottest and most innovative newcomers in restaurant franchising. In addition to a segment by segment overview of the current franchising scene, and an exclusive statistical report, *Restaurant Franchising in the Economy*, prepared by Andrew Kostecka, we have reviewed some venerable chains that are trying on new looks for the 80s 139

Handful of Finger Foods
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Cover photo courtesy of D'Lites

Restaurant franchising in the economy

This comprehensive study, "Franchising in the Economy," presents sales and statistical information about franchising in the U.S. It is issued annually by the U.S. Department of Commerce, and is prepared by Andrew Kostecka.

The franchise system of distribution is a significant part of the U.S. economy, creating annually more and more new business opportunities, new jobs, new entrepreneurs, and new services, as well as new export opportunities.

Franchising has been called the last and best hope for independent business in an era of growing vertical integration. It helps small businesses compete with the giants, since franchisees have a good chance to survive and prosper using the franchisor's know how and trademark or servicemark; it also offers a unique opportunity to people with limited capital and experience.

Franchising sales of goods and services in more than 481,000 outlets are expected to exceed $529 billion in 1985, about nine percent higher than a year earlier and about 58 percent over the level of sales at the start of the 1980s.

Employment in franchising, including part-time workers and working proprietors, was 5.2 million in 1983 and will probably reach over 5.6 million by the end of 1985.

Expansion of franchising in a broad range of retail and service industries—including automotive products and services, lodging, all types of restaurants, rentals, numerous business aids and services, food and non-food retailing, educational and health activities, home care, travel and recreation—is gradually changing the traditional marketing system for consumer goods and services and, at the same time, continues to offer opportunities for those individuals seeking their own businesses.

Utilizing current marketing techniques, franchisors are able to keep pace with shifting consumer markets and offer management expertise and market resource assistance to potential entrepreneurs.

Franchising has become a powerful force partly because economic factors have made growth through company-owned units difficult for many businesses.

Therefore, by emphasizing independent ownership, franchising provides an effective method of overcoming such problems as shortage of capital, high interest rates, and finding and hiring competent employees.

Product and tradename

Product and tradename franchising began in the United States as an independent sales relationship between supplier and dealer in which the dealer acquired some of the identity of the supplier. Franchised dealers concentrate on one company's product line and to some extent identify their business with that company.

Typical of this segment are automobile and truck dealers, gasoline service stations, and soft drink bottlers. Together they dominate the franchise field, accounting for an estimated 73 percent of all franchise sales for 1985.

Total sales by product and tradename franchisors are expected to reach an estimated $388 billion in 1985, compared with $360 billion in 1984; $312 billion in 1983.

Since 1972, the establishments of product and tradename franchisors declined at a rapid rate. For example, there was a net loss of almost 90,000 gasoline service stations between 1972 and 1983 alone. However, the attrition rate is expected to

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slow in the next few years, and in 1985 the number of product and tradename franchise establishments is expected to decline to 158,460 from 160,510 in 1984; 164,986 in 1983.

Business format franchising

Business format franchising is characterized by an ongoing business relationship between franchisor and franchisee that includes not only the product, service, and trademark, but the entire business format itself: a marketing strategy and plan, operating manuals and standards, quality control, and continuing two-way communications. Restaurants, nonfood retailing, personal and business services, rental services, real estate services, and a long list of other service businesses fall into the category of business format franchising.

Business format franchising has been responsible for much of the growth of franchising in the United States since 1950 and will continue to offer opportunities for those individuals seeking their own businesses.

The volume of sales and the number of units owned or franchised by business format franchisors have been steadily on the rise since 1972. Sales of business format franchisors are expected to be over $141 billion in 1985, compared with $124 billion in 1984 and $111 billion in 1983.

In contrast to product and tradename franchises, the number of establishments of business format

RESTAURANT FRANCHISING, 1983-1985
Sales ($000)

Major Activity	Firms	1983 Total	1983 Company-Owned	1983 Franchisee-Owned
Chicken	34	$ 3,417,658	$1,292,166	$2,125,492
Hamburgers, Franks Roast Beef, etc.	98	18,947,837	5,294,782	13,653,055
Pizza	111	4,649,022	1,806,178	2,842,844
Mexican (Taco, etc.)	39	1,681,668	865,461	816,207
Seafood	11	938,261	532,789	405,472
Pancakes, Waffles	12	838,291	264,442	573,849
Steak, Full Menu	111	7,716,262	4,095,365	3,620,897
Sandwich and Other	50	502,595	93,233	409,362

Data estimated by respondents for 1984 and 1985.

RESTAURANT FRANCHISING, 1983-1985
Number of Units

Major Activity	Firms	1983 Total	1983 Company-Owned	1983 Franchisee-Owned
Chicken	34	8,147	2,821	5,326
Hamburgers, Franks Roast Beef, etc.	98	28,270	6,378	21,892
Pizza	111	11,852	4,140	7,712
Mexican (Taco, etc.)	39	3,469	1,538	1,931
Seafood	11	2,309	1,197	1,112
Pancakes, Waffles	12	1,558	488	1,070
Steak, Full Menu	111	9,849	4,794	5,055
Sandwich and Other	50	2,074	429	1,645
Total	364	67,528	21,785	45,743

Data estimated by respondents for 1984 and 1985.

U.S. FRANCHISED RESTAURANTS, 1983-85 SUMMARY

Item	1983	1984	1985	Percent Change 1983-84	Percent Change 1984-85
Company-owned	21,785	22,995	25,052	5.6	8.9
Franchisee-owned	45,743	48,769	53,691	6.6	10.1
Total number of establishments	67,528	71,764	78,743	6.3	9.7
Company-owned	14,244,416	15,929,317	17,991,294	11.8	12.9
Franchisee-owned	24,447,178	26,987,554	30,934,269	10.4	14.6
Total sales of products and services: ($000)	38,691,594	42,916,871	48,925,563	10.9	14.0
Merchandise (non-food) for resale	65,706	69,632	72,890	6.0	4.7
Supplies (such as paper goods, etc.)	174,389	186,970	199,862	7.2	6.9
Food ingredients	887,405	1,017,703	1,170,949	14.7	15.1
Other	40,480	42,911	45,571	6.0	6.2
Total sales of products and services by franchisors to franchisees: ($000)	1,167,980	1,317,216	1,489,272	12.8	13.1

Data estimated by respondents for 1984 and 1985.

	1984			1985	
Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
$3,966,987	$1,554,575	$2,412,412	$ 4,708,435	$1,880,342	$2,828,093
21,214,099	5,912,554	15,301,545	23,783,689	6,578,974	17,204,715
5,221,431	2,019,487	3,201,944	6,067,912	2,294,633	3,773,279
1,887,964	964,387	923,577	2,192,835	1,089,706	1,103,129
1,072,860	618,030	454,830	1,246,850	725,200	521,650
923,165	291,594	631,571	999,252	319,305	679,947
8,032,734	4,457,278	3,575,456	9,152,112	4,961,439	4,190,673
597,631	111,412	486,219	774,478	141,695	632,783
42,916,871	15,929,317	26,987,554	48,925,563	17,991,294	30,934,269

	1984			1985	
Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
9,041	3,200	5,841	10,087	3,609	6,478
29,452	6,574	22,878	31,641	7,254	24,387
13,093	4,435	8,658	14,898	4,812	10,086
3,766	1,637	2,129	4,228	1,767	2,461
2,478	1,254	1,224	2,685	1,357	1,328
1,619	509	1,110	1,725	544	1,181
9,926	4,944	4,982	10,589	5,212	5,377
2,389	442	1,947	2,890	497	2,393
71,764	22,995	48,769	78,743	25,052	53,691

franchisors is expected to increase to almost 323,000 in 1985, compared to 294,149 in 1984, 270,195 in 1983.

The number of business format franchisors has been rising steadily since 1972, and this upward trend is expected for the remainder of the 1980s as more and more companies are choosing to expand their distribution of goods and services through franchising. There were 909 business format franchisors that responded to our survey in 1972. By 1983, the number of franchisors in this category had more than doubled to 1,877.

Large franchisors, those with 1,000 or more units each, continue to dominate business format franchising, with 55 companies accounting for 49 percent of all sales and for 51 percent of all establishments in 1983. The total number of outlets reported by these large franchisors stood at 140,560, with sales of $53.8 billion. Thirteen of these large franchisors were engaged in restaurants and 10 were in automotive products and services.

Sales of products and services by business format franchisors to their franchisees totaled $68 billion in 1983 and might rise to about $93.8 billion in 1985. Franchisor sales of merchandise for resale were largest in the foodseal retailing category — $2.4 billion in 1983 — followed by automotive products and services at $1.9 billion. Franchising sales of food ingredients amounted to $1.8 billion in 1983 of which $887 million went to restaurants and $719 million to food retailers other than convenience stores.

Trends

Franchising can accurately be described as the "Wave of the Future." With long-term prospects for franchising extremely bright, growing numbers of smaller companies, operating in local or regional markets, will turn to franchising for new ways to distribute their goods and services. These new small franchising companies will quickly react to changing market conditions and seek out new services and merchandising alternatives in order to broaden store appeal and attract greater patronage.

Continuing economic improvement, stable prices, slower growing population, and increased competition for market share will turn many large corporations and manufacturers to franchising, influenced by changing tastes of consumers and demographic shifts.

With rising costs of construction, marketing, and training, and with franchising enlarging its share of retail and service receipts, we should see an increased trend toward multi-unit ownership by franchisees and the increased granting of rights to develop large regional areas. Stepped-up activity also should occur by larger franchisors in their acquiring of existing chains for expansion instead of developing new, individual franchises.

Many manufacturers not satisfied with the merchandising of their consumer products through existing traditional outlets — with often inadequately trained personnel — are turning to franchising to enhance their distribution. This trend is evident in clothing and software merchandising.

The trend towards conversion franchising will continue in many areas of franchising along with the continuing entry, in large numbers, of women into franchising both as franchisees and franchisors. The shift toward computer rental and repair services in franchising is growing.

In addition, in order to survive and compete in the marketplace, there will be a push among retail

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TOP 30 FRANCHISE RESTAURANT SYSTEMS

1983-84 systemwide sales by company and franchise

Franchise system	1984		1983		'83-'84 % Change
McDonald's	$9,900.	(2,600c/7,300f)	$8,600.	(2,300c/6,300f)	15
Burger King*	$3,400.	(540c/2,860f)**	$2,810.	(422c/2,388f)	21
Kentucky Fried Chicken	$2,850.	(880c/1,970f)**	$2,623.	(778c/1,845f) **	9
Wendy's	$2,490.**	(870c/1,620f)	$1,920.	(666c/1,254f)	30
Hardee's*	$1,917.	(636c/1,281f)	$1,718.	(807c/911f) **	12
Pizza Hut	$1,700.	(850c/850f)	$1,500.	(750c/750f) **	13
Dairy Queen*	$1,391.	(3c/1,388f)	$1,288.	(3c/1,285f)	8
Taco Bell	$873.**	(445.5c/427.5f)	$693.**	(365.2c/327.8f)	26
Big Boy	$860.**	(220c/640f)	$1,000.	(178.5c/821.5f)	(14)
Arby's	$760.**	(95c/665f)	$664.	(80c/584f) **	14
Domino's Pizza	$625.	(172c/453f)	$466.	(107c/359f)	34
Long John Silver's*	$602.3	(366.9c/235.4f)	$554.5	(337.4c/217.1f)	9
Jack in the Box*	$575.2	(534c/41.2f)**	$531.7	(497.5c/34.2f) **	8
Church's*	$564.8**	(468.8c/96f)	$526.8**	(425c/101.8f)	7
Ponderosa*	$547.	(380c/167f)	$553.5	(384.2c/169.3f)	(1)
Dunkin' Donuts*	$532.1	(29.4c/502.7f)	$475.8	(27.2c/448.6f)	12
Shoney's*	$514.3	(241.7c/272.6f)	$424.5	(198.2c/226.3f)	21
Western Sizzlin'*	$495.**	(4c/491f)	$470.**	(4c/466f)	5
Howard Johnson's	$475.**	(342c/133f)	$435.1**	(313.6c/121.5f)	9
Baskin Robbins*	$470.	(1c/469f)**	$455.	(1c/454f) **	3
Roy Rogers	$400.**	(307.5c/92.5f)	$341.7**	(256.3c/85.4f)	17
Bonanza*	$388	(2c/386f)**	$371	(2c/369f) **	5
Sizzler*	$384.	(132.4c/251.6f)	$353.7	(118.8c/234.9f)	9
Godfather's Pizza	$312.**	(90c/222f)	$339.	(98c/241f)	(8)
Popeyes Famous Fried Chicken*	$303.6	(62.8c/240.8f)	$229.6	(55.6c/174f)	32
Perkins' Cake & Steak	$283.3	(97.3c/186f)	$268.5	(96.5c/172f)	5
Sonic Drive Ins*	$283.1	(27.4c/255.7f)**	$262.6	(24.4c/238.2f) **	8
Chi-Chi's*	$279.3	(152.5c/120.8f)	$183.1	(94.4c/88.7f)	49
Pizza Inn*	$249.6	(116.1c/133.5f)	$236.6	(105.9c/130.7f)	5
Captain D's*	$246.	(133.1c/112.9f)	$215.7	(116.5c/99.2f)	14

*Fiscal year-end results (companies on calendar year-end results)
**Estimated

1983-84 systemwide units by company and franchise

Franchise system	1984		1983		'83-'84 %Change
McDonald's	8,069	(2,017c/6,052f)	7,778	(1,949c/5,829f)	4
Burger King*	3,827	(549c/3,278f)	3,502	(492c/3,010f)	9
Kentucky Fried Chicken	6,175	(1,713c/4,462f)	5,971	(1,524c/4,447f)	3
Wendy's	2,995	(1,057c/1,938)	2,673	(922c/1,751f)	12
Hardee's*	2,229	(825c/1,404f)	2,154	(840c/1,314f)	3
Pizza Hut	4,350	(2,175c/2,175f)	4,100	(2,050c/2,050f)**	6
Dairy Queen*	4,789	(6c/4,783f)	4,743	(6c/4,737f)	1
Taco Bell	1,830	(933c/897f) **	1,700	(889c/811f)	8
Big Boy	860	(220c/640f)	1,230	(219c/1,011f)	(30)
Arby's	1,379	(174c/1,205f)	1,255	(151c/1,104f)	11
Domino's	1,847	(589c/1,258f)	1,185	(365c/820f)	56
Long John Silver's*	1,357	(814c/543f)	1,313	(782c/531f)	3
Jack in the Box*	788	(727c/61f)	774	(724c/50f)	2
Church's*	1,493	(1,234c/259f)	1,397	(1,117c/280f)	7
Ponderosa*	655	(435c/220f)	685	(448c/237f)	(4)
Dunkin' Donuts*	1,359	(73c/1,286f)	1,290	(65c/1,225f)	5
Shoney's*	433	(188c/245f)	390	(171c/219f)	11
Western Sizzlin'*	640**	(5c/635f)	575**	(5c/570f)	11
Howard Johnson's	610**	(433c/177f)	749	(533c/216f)	(8)
Baskin Robbins*	3,205	(4c/3,201f)	2,935	(4c/2,931f)	9
Roy Rogers	525	(387c/138f)	504	(380c/124f)	4
Bonanza*	551	(5c/546f)	545	(7c/538f)	1
Sizzler*	451	(139c/312f)	440	(138c/302f)	3
Godfather's Pizza	900	(230c/670f)	887	(229c/655f)	2
Popeyes Famous Fried Chicken*	445	(111c/334f)	369	(92c/277f)	21
Perkins' Cake & Steak	312	(96c/216f)	307	(94c/213f)	2
Sonic Drive Ins*	968	(92c/876f)	975	(96c/879f)	(.1)
Chi-Chi's*	136	(69c/67f)	92	(46c/46f)	48
Pizza Inn*	707	(289c/418f)	710	(288c/422f)	(.4)
Captain D's*	456	(255c/201f)	426	(229c/197f)	7

*Fiscal year-end results (companies on calendar year-end results)
**Estimated by Restaurant Business or by the respective company

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franchisors to computerize their entire retail operation, including sales and inventory. Use of technology in retailing by franchisors is expected to proceed at an evolutionary pace for the remainder of the 1980s.

Franchised restaurants of all types will continue to be the frontrunner and most popular sector of franchising. Casual theme restaurants designed to reflect a particular lifestyle or mood are finding increased acceptance in franchising while restaurant franchisors associated with the popularly used phrase of "fast food" will continue to show the greatest sales growth.

Restaurant franchisors will move toward more diversified menus including salad bars, fish, and poultry as personal health concerns have influenced increased consumption of such food items. The shift to ethnic foods is still on the rise. Significant penetration of foreign markets by restaurant franchisors will occur during the next decade.

Considerable interest will be shown in growth through acquisition for the balance of the 1980s. Franchisors confronted with static local markets, are likely to seek merger opportunities with franchisors in other sectors of the country, especially in the Sunbelt and Western states where population is rising and potential for growth is promising.

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RESTAURANT FRANCHISING GROWTH IN SALES, 1979-1984 ($ SALES: $000)

Major Activity	Total Sales			Company-owned			Franchisee-owned		
	$ 1979	$ 1984	% Change	$ 1979	$ 1984	% Change	$ 1979	$ 1984	% Change
Chicken	2,258,017	3,966,987	76	739,354	1,554,575	110	1,518,663	2,412,412	59
Hamburgers, Franks, Roast Beef	12,740,586	21,214,099	67	3,066,896	5,912,554	93	9,673,690	15,301,545	58
Pizza	2,141,618	5,221,431	144	821,046	2,019,487	146	1,320,572	3,201,944	142
Mexican	694,514	1,887,964	172	322,758	964,387	199	371,756	923,577	148
Seafood	773,736	1,072,860	39	317,572	618,030	95	466,164	454,830	2
Pancakes, Waffles	726,429	923,165	27	204,180	291,594	43	522,249	631,571	21
Steak, Full Menu	5,225,166	8,032,734	54	2,575,335	4,457,278	73	2,649,831	3,575,456	35
Sandwich and Other	205,850	597,631	190	29,260	111,412	281	176,590	486,219	175
Total	24,765,916	42,916,871	73	8,076,401	15,929,317	97	16,689,515	26,987,554	62

Data estimated by survey respondents for 1984 *Source: U.S. Dept. of Commerce, Restaurant Business*

RESTAURANT FRANCHISING GROWTH IN UNITS, 1979-1984

Major Activity	Total Units			Company-owned			Franchisee-owned		
	1979	1984	% Change	1979	1984	% Change	1979	1984	% Change
Chicken	7,075	9,041	28	1,990	3,200	61	5,085	5,841	15
Hamburgers, Franks, Roast Beef	27,310	29,452	8	5,153	6,574	28	22,157	22,878	3
Pizza	8,407	13,093	56	3,285	4,435	35	5,122	8,658	69
Mexican	2,477	3,766	52	1,050	1,637	56	1,427	2,129	49
Seafood	2,383	2,478	4	965	1,254	30	1,418	1,224	(16)
Pancakes, Waffles	1,600	1,619	1	427	509	19	1,173	1,110	(6)
Steak, Full Menu	8,487	9,926	17	3,788	4,944	31	4,699	4,982	6
Sandwich and Other	1,197	2,389	100	226	442	96	971	1,947	101
Total	58,936	71,764	22	16,884	22,995	36	42,052	48,769	16

Data estimated by survey respondents for 1984 *Source: U.S. Dept. of Commerce, Restaurant Business*

Business and personnel franchise services in particular are expected to continue to rise significantly for the next few years. Companies will need additional business and management consulting services to provide innovative marketing ideas geared to a better educated and more affluent consumer in highly segmented markets. The trend toward specialized contract services is expected to continue, boosting such business areas as maid services, repair and home remodeling, temporary help, health care, carpet cleaning, and the various maintenance/cleaning services.

Other areas in franchising that bear watching and show signs of continued growth in the next few years are ice cream, yogurt and popcorn outlets, miscellaneous home furnishing stores, security systems, automotive aftermarket services, travel agency operations, and video equipment sales and rental outlets.

International markets

U.S. franchisors are currently in most major countries or are engaged in serious negotiations for the purpose of entering foreign markets, an indication that foreign nations have welcomed the entry of U.S. franchisors and that local laws and regulations have not been overly restrictive.

> Franchised restaurants of all types will continue to be the frontrunner and the most popular sector of franchising.

Franchising operations in foreign markets, however, involve many of the same problems confronting other business ventures. Language difficulties, differences in customs, and sometimes unpredictable government decision-making are examples of impediments all U.S. franchisors encounter when attempting to take advantage of opportunities in other countries.

Compared to other service sectors, the problems of franchise companies in accomplishing international transactions are relatively less formidable. Franchisors must comply with the same local requirements as domestic businesses and the franchise agreements must comply with local contract law, antitrust law, and trademark licensing laws.

We know of no real trade barriers that discriminate specifically against U.S. franchisors. There are no specific regulations restricting franchise operations and no prohibitive laws governing franchising that differ from those which affect other types of business operations. Of course, some restrictions affect franchising more than other businesses but that is because of the nature of franchising rather than a foreign government's opposition to franchising as a system of distribution.

The populations in many foreign countries are young, and like to try new products and concepts. In addition, more and more women everywhere are going to work. This not only increases the family's disposable income, which is good for franchisors in the service and consumer products businesses, but it also reduces the amount of time spent in the kitchen and increases the demand for food purchased away from home.

Other developed countries are increasingly exhibiting the same attributes which fostered the surge of service industries in the United States. These attributes include rising disposable personal income, growing demand for consumer goods and services, expanding ur-

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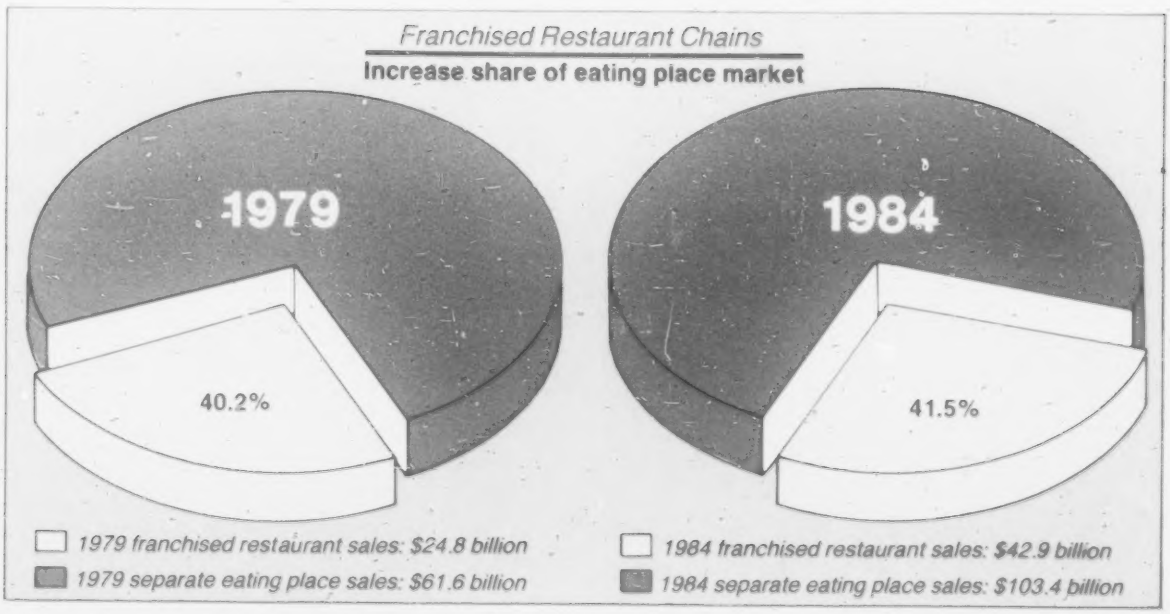

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banization, and higher consumer mobility.

The Department of Commerce survey reveals that 405 U.S. franchising companies operated 25,082 outlets in foreign countries in 1983; this compares with 295 franchisors with 23,824 outlets in 1982.

Furthermore, an additional 127 companies have indicated that they are considering extending their U.S. operations to foreign countries by the end of 1986. This interest has been expressed mostly by small- and medium-sized franchisors, marketing a variety of services and products.

Of the companies seeking foreign markets, 30 are franchisors of business aids and services and 27 are restaurant franchisors.

Canada continues to be the dominant market for U.S. franchisors despite its declining share of U.S. foreign outlets. In 1982, 30 percent of all U.S. foreign franchised outlets were located in Canada, down from a high of 46 percent in 1971. A total of 217 U.S. franchising firms with 7,765 units operated in Canada in 1983, predominately in restaurants (1,539), nonfood retailing (1,306), and business aids and services (1,003).

> Japan is the second largest market for U.S. franchisors; 69 percent of which represent the food categories.

Japan continues to be the second largest market for U.S. franchisors with a total of 5,079 units, of which 69 percent represent various food categories such as restaurants, donut shops, ice cream stores, and convenience food stores.

The United Kingdom ranks third with 2,229 outlets, while 4,370 outlets are located in all of Continental Europe.

Changes in ownership

Changes in ownership in 1983 involved 9,996 units belonging to 984 franchisors. These changes included conversions to franchisee-owned or to company-owned operations, and discontinuation of either company-owned or franchisee-owned outlets. Units discontinued may include businesses that failed, but the number of failures is unknown. However, we should note that the number of units discontinued—for whatever reason—is relatively low, 3.2 percent in 1983 for franchisee-owned units.

Specifically, 549 outlets were repurchased for company-ownership, while 1,069 were converted to franchisee-ownership. As in previous years, the largest portion of these changes occurred in the restaurant sector of franchising. The number of establishments discontinued in 1983 stood at 5,378 of which 1,473 were company-owned and 6,905 franchisee-owned.

Since 1975, the trend in franchising has reflected an increase in conversions of company-owned units to franchisee-ownership.

Failures and departures

A total of 56 franchisors operat-

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U.S. FRANCHISED RESTAURANTS
Number of Establishments by State: 1983

State	Total	Company-Owned	Franchisee-Owned	State	Total	Company-Owned	Franchisee-Owned
Alabama	1,134	380	754	Nebraska	512	183	329
Alaska	96	5	91	Nevada	282	132	150
Arizona	940	309	631	New Hampshire	127	32	95
Arkansas	670	141	529	New Jersey	1,048	281	767
California	6,803	2,404	4,399	New Mexico	489	144	345
Colorado	1,120	346	774	New York	2,058	535	1,523
Connecticut	550	165	385	North Carolina	1,684	515	1,169
Delaware	123	43	80	North Dakota	198	16	182
District of Columbia	118	63	55	Ohio	3,433	1,190	2,243
Florida	3,324	1,235	2,089	Oklahoma	1,277	484	793
Georgia	1,981	848	1,133	Oregon	742	190	552
Hawaii	190	72	118	Pennsylvania	2,164	784	1,380
Idaho	238	33	205	Rhode Island	109	33	76
Illinois	2,981	979	2,002	South Carolina	882	287	595
Indiana	2,160	719	1,441	South Dakota	200	32	168
Iowa	997	291	706	Tennessee	1,468	544	924
Kansas	959	336	623	Texas	5,792	2,232	3,560
Kentucky	1,394	481	913	Utah	383	98	285
Louisiana	1,122	442	680	Vermont	57	5	52
Maine	155	39	116	Virginia	1,423	419	1,004
Maryland	797	377	420	Washington	937	282	655
Massachusetts	708	238	470	West Virginia	509	131	378
Michigan	2,528	880	1,648	Wisconsin	1,281	338	943
Minnesota	1,241	416	825	Wyoming	179	21	158
Mississippi	737	129	608				
Missouri	1,543	626	917	TOTAL	62,045	20,921	41,124
Montana	202	16	186				

Represents 92 percent of total establishments.
The remaining eight percent were unable to provide a geographic breakdown for this report.

ng 2,165 outlets failed during 1984, according to the U.S. Department of Commerce survey. The volume of 1983 sales represented by the failed firms amounted to $480 million, of which the franchisee-owned portion was $373 million of the total business format franchising sales of $111 billion in 1983. The lost volume represents 0.4 percent. In addition, 63 companies decided in 1984 to discontinue franchising as a method of doing business; these companies operated 1,168 units in 1983 with $226 million in sales, of which 961 outlets with $155 million in sales were franchisee-owned.

Renewals and terminations

In 1983, 11,854 franchise arrangements came up for renewal, of which 10,707, or 90 percent, were renewed and 1,147 were not. Of the latter, 451 were not renewed because of objections by the franchisor, 380 because the franchisee did not wish to renew, and 316 by mutual agreement.

There were 6,906 terminations of franchise agreements in 1983, of which 2,577 were terminated by franchisors: 1,458 for nonpayment of royalties or other financial obligations, 220 for the franchisee's failure to comply with quality control standards, and 899 for other reasons not identified. Franchisees were responsible for terminating 3,867 franchise agreements, while an additional 462 were terminated by mutual consent.

A total of 3,634 franchisees in 1983 asked permission from their franchisors to sell their franchises to other businesspersons; all but 110 transfers were approved.

> Food and beverage sales for franchised restaurants neared $43 billion in 1984, up 14 percent in 1985.

Retail franchising

Real growth in disposable personal income, moderate inflation and the availability of credit should keep consumer spending strong. Food stores remain America's largest retail industry and when combined with eating and drinking places, food accounts for 31 percent of all retail sales in 1984.

Retailing dominates franchising, accounting for 57 percent of all franchising receipts in 1984. The retail sales of all firms associated with franchising reached about $421 billion in 1984, or 33 percent of all U.S. retail sales estimated at $1.3 trillion.

Continuing economic improvement and slower rising prices will prompt greater consumer expenditures and boost retail sales. Competition for market share will grow as retailers continue to close marginal stores and replace obsolete units with larger, more efficient ones. Shopping patterns are likely to change as many consumers are expected to share their shopping budget among several competitors. Retailers are also expected to invest heavily in remodeling to appeal to shoppers. Growing interest in foreign markets will prompt some retailers to expand abroad.

Restaurants

In recent years franchised restaurant chains have experienced longer hours of operation and this trend should continue through the remainder of the 1980s. Increased hours of operation are the result of the spreading availability of breakfast menus, the need to boost unit-level return, introduction of new products at a faster rate, movement of new units to inner city and superhighway locations, and drive-thrus.

Food and beverage sales for franchised restaurants of all types, which reached almost $43 billion in 1984, are up 14 percent, to $49 billion in 1985. Franchised restaurants numbered 67,528 in 1983, increased to 71,764 in 1984, and are expected to rise to almost 79,000 in 1985. The highest concentrations of franchised restaurants continue to be in California, Texas, Ohio, and Florida.

Employment in the franchised restaurant sector was 1,954,646 in 1983, up from 1,815,086 a year earlier, a rise of eight percent. Employment in the franchised restaurant industry accounts for 38 percent of employment in the franchised system as a whole and should continue to rise in the next few years. Furthermore, franchised restaurant employees accounted for an estimated 40 percent of all persons employed in eating places in the United States.

Entry into the restaurant franchising system, mostly by small companies, continued in 1983 with a net gain of eight franchisors bringing the total to 466.

During 1984, 12 franchisors with a total of 391 restaurants (190 fran-

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INTERNATIONAL RESTAURANT FRANCHISES IN 1983
Countries and Number of Establishments*

Major Activity	U.S. Firms	Total	Canada	Mexico	Caribbean	United Kingdom	West Europe	Australia	Japan	Other Asia	South America	Africa	New Zealand	Central America
Chicken	7	1,621	38	67	114	369	37	222	436	130	11	144	42	11
Hamburger	14	2,811	1,149	0	89	169	384	191	596	148	32	0	17	36
Pizza	15	498	87	32	41	3	34	127	52	70	0	8	24	20
Mexican	7	83	61	0	17	0	0	2	0	1	1	0	0	1
Seafood	3	18	6	0	0	0	0	0	5	7	0	0	0	0
Pancakes	2	12	3	0	0	0	0	0	8	1	0	0	0	0
Steak	14	470	192	20	2	1	0	10	237	8	0	0	0	0
Sandwich	2	3	3	0	0	0	0	0	0	0	0	0	0	0
Total	64	5,516	1,539	119	263	542	455	552	1,334	365	44	152	83	68

*Includes company-owned, franchisee-owned and joint ventures
Source: U.S. Dept. of Commerce

chisee-owned) went out of business, while 16 franchisors with a total of 141 restaurants (118 franchisee-owned) decided to abandon franchising as a method of expansion.

There were 13 big franchisors with over 1,000 units each in 1983, one less than the previous year. Combined, they represented 52 percent of all restaurants in the franchise system, or 35,021 restaurants, of which 24,790 were franchisee-owned and 10,231 were company-owned. They also represented 58 percent, or $22 billion, of total franchised restaurant sales, of which $16 billion were by franchisee-owned units.

As many foreign countries improve their standard of living and evolve into more service-oriented economies, receptiveness to American-style franchising will continue to create export opportunities for U.S. franchisors despite increased competition from local firms and other international firms.

In 1983, 64 restaurant franchisors operated 5,516 units in foreign countries. Another 27 franchisors plan to extend their operations to foreign countries by the end of 1986. The largest market for franchisors of restaurants is Canada followed by Japan.

In 1983, a larger number of restaurants were converted to franchisee-ownership than were repurchased for company operation. Most of the buy backs were temporary with the intention of reselling them to prospective franchisees at a later date.

Convenience stores

Convenience food stores are an important factor in food retailing. Because of changing demographics and lifestyles, they have expanded rapidly, evolving into a large and sophisticated segment of food retailing. Many resemble scaled-down, modern supermarkets and offer on-premise foodservice facilities and self-service gasoline.

Currently, foodservice—restaurant style foods and beverages prepared in the store for consumption elsewhere—are becoming more important. Almost all convenience stores offer some type of foodservice, at least hot beverages and fresh pastries. Many stores offer a wide variety of foodservice items: cold sandwiches, hot sandwiches, pizza, and fried chicken. Many stores have installed milk/soft drink (post-mix) dispensing apparatus because of higher profit margins compared with bottled beverages.

Despite intensified competition from supermarkets offering extended hours and Sunday shopping, convenience store sales moved up 10 percent, to $11.2 billion in 1984. The number of franchised stores in 1984 was reported to be 15,331, up 4.4 percent in stores.

DONUT SHOPS (10 franchisors)

	Sales ($000)			Units		
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
1983	690,894	88,923	601,971	2,177	216	1,961
1984*	771,508	94,456	677,052	2,322	212	2,110
1985*	863,253	101,973	761,280	2,543	217	2,326

*Data for 1984 and 1985 estimated by respondents.

ICE CREAM/YOGURT STORES (45 franchisors)

	Sales ($000)			Units		
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned
1983	965,285	61,307	903,978	6,322	186	6,136
1984*	1,109,503	60,778	1,048,725	7,265	222	7,043
1985*	1,325,891	88,869	1,237,022	8,755	261	8,494

*Data for 1984 and 1985 estimated by respondents.

Food retailing

The retailing of food by specialty food shops, ice cream stores, coffee services, donut shops, bakeries, cookie shops, candy stores, nut stores, and others, amounted to $9.3 billion in 1984, eight percent over the previous year. Sales in this category in 1985 are expected to reach $10.4 billion. In 1985, the number of units is expected to rise to 19,204, a jump of 14 percent over the previous year.

Two of the better known groups in this category are donut shops and ice cream and yogurt stores. The sales and establishments for these specialty stores for 1983-85 are listed in the accompanying tables. In 1983, there were 19 franchisors of donut shops providing jobs for 28,328 employees. There were 45 franchisors of ice cream and yogurt stores in 1983, employing 44,483 persons.

Hotels and motels

Occupancy rates in the lodging industry should be about 68 percent in 1984 with a stronger showing in 1985. Business travel generally accounts for more than 60 percent of the rooms occupied, with the balance split almost equally between pleasure and convention travel. Pleasure travel, although influenced inevitably by fluctuations in the economy, has grown steadily in recent years.

There is a trend among hotel chains to provide a variety of locations and hotel types to meet all levels of the market rather than a specific market segment. This diversification may take the form of luxury properties, an all-suite chain, a line of moderately-priced hotels, and a budget chain. New rooms coming available are mostly in the budget hotels, airport hotels, and all-suite properties.

Hotel, motel, and campground franchisors in 1984 represented 7,224 establishments, with receipts estimated at $13.6 billion. Receipts are expected to rise eight percent in 1985 over 1984, reaching almost $14.6 billion. Total receipts for the